

- The number of small businesses in BC climbed 7.2% in 2005
- BC's inflation rate fell to 1.0% in September
- Manufacturing shipments rose 4.8% in August

Small Business

- The number of businesses in British Columbia in 2005 totalled 371,700, about 98% of which were small businesses. Between 2000 and 2005, the count of small businesses (businesses with 0-49 employees) in the province climbed 7.2%, well above the national growth average of 0.2%. Alberta (+4.9%), Ontario (+0.6%) and Nova Scotia (+0.3%) were the only other provinces to exceed the Canadian average. Over the same period, BC's Northeast outpaced the other development regions of the province in growth in the number of small businesses with an average annual growth rate of 3.8%.

Approximately 1,012,100 jobs in BC were derived from small business in 2005. This accounted for 48% of total employment in the province. Small business employment grew for the fourth straight year in 2005, climbing by 3.8%. Over the past five years, the proportion of total employment comprised of self-employed workers has been increasing in BC. In 2005, self-employment accounted for 19.5% of total employment, up 0.5 percentage points from 2004.

With an employment increase of 31.3%, the construction industry was the largest provider of new small business jobs between 2000 and 2005. As a result of the recent construction surge in the province, approximately 16,000 jobs were created in this industry over the five year period. *Data Source: BC Stats, Small Business Profile 2006*

Prices

- British Columbia's year-over-year inflation rate fell to 1.0% in September, as the all-items Consumer Price Index (CPI) dropped half of a per cent from August. BC's rate was slightly higher than the overall Canadian inflation rate of 0.7%. Alberta was the only province to experience an increase from August to September (+0.2%) and

had by far the highest year-over-year rate of inflation at 3.7%.

The higher cost of food (+2.4%) and shelter (+2.7%) are significant contributors to BC's overall inflation rate; however, the cost of energy, which was at one point a main driver of inflation, is now helping moderate the overall rate. Year-over-year energy costs are down 5.8% and the falling price of gasoline (-11.9%) is the main reason why transportation costs have dipped (-0.6%). At 1.7%, the September inflation rate excluding energy products was actually higher than the overall rate.

The inflation rate was 1.4% in Vancouver, while in Victoria, the cost of goods and services climbed only 0.7%.

Data Source: Statistics Canada

The Economy

- Shipments of goods manufactured in British Columbia rose 4.8% (seasonally adjusted) in August recovering from a 3.9% slip in the previous month. The increase in the value of shipments was largely due to an upturn in non-durable goods (+7.7%), which was driven by substantial growth in the dominant paper industry (+17.8%). Shipments of food (+2.2%), chemicals (+5.2%) and plastics & rubber products (+7.1%) were also up. On the durables side, a 1.4% decrease in shipments by producers of wood products was offset by increased shipments by the primary metals (+19.8%) and fabricated metals (+3.1%) industries, the second and third largest manufacturers of durable goods in BC. Manufacturers of transportation equipment (+16.6%) also saw their shipments rise but other manufacturers of durable goods, such as machinery (-4.1%) and furniture & related products (-4.3%) did not fare as well. Overall shipments of durables were up 2.6%.

Did you know...

Given an "extra" hour per day, 15% of small business owners in BC would spend it with spouses or family, and 28% would use it for business-related tasks. *Source: Ipsos-Reid*

The Canadian manufacturing sector slowed in August, with shipments inching down 0.3%. Results were varied among the provinces. Quebec (-1.6%), Saskatchewan (-2.5%) and Manitoba (-4.2%) exhibited weakness, and in New Brunswick, the value of shipments tumbled 9.6%. Every other province posted gains, with the most notable increase seen in Newfoundland & Labrador (+13.0%).

Data Source: Statistics Canada

- **Wholesale sales jumped 5.9% (seasonally adjusted) in August, posting the third gain in four months.** Nationally, the value of wholesale sales edged up 0.5%, as gains in a wide range of sectors were able to offset a retraction in the automotive sector (-7.4%). Higher sales in most provinces outweighed weakness in Ontario (-1.7%) and Nova Scotia (-0.3%). Eight provinces saw growth, ranging from 1.0% in Alberta to a solid 11.7% in Saskatchewan.

Data Source: Statistics Canada

Wine & Grape Industry

- **It seems Canadians are acquiring a taste for their own wine.** Between 1992/1993 and 2004/2005, total sales of Canadian wines increased by \$557 million, 93% of which came from the Canadian retail market. Exports also increased over the same period but remained comparatively less significant. Despite its being relatively small (accounting for only 0.03% of economy-wide gross domestic product in 2005), between 1997 and 2005, Canada's grape and wine industry had the 11th highest growth rate of all 215 industry groups.

British Columbians were second only to residents of Quebec in terms of the average amount of wine purchased in 2005. Consumers in Quebec purchased an average of 18.2 litres per adult in 2005, while BC residents purchased an average of 16.2 litres. Total wine sales in Canada surpassed \$4.2 billion in 2004/2005. Consumers purchased a record 360 million litres of wine, 40% of which was in Canadian brands, and 60% imported. Wine accounted for 25% of the value of sales of alcoholic beverages in 2004/2005, surpassing spirits (24%) for the first time. However, with beer accounting for over 50% of all sales of alcoholic beverages over this period, Canada is very much still a beer drinking nation.

Data Source: S.C. Cat. No. 11-621-MIE

Job Satisfaction

- **In 2002, approximately one in 12 Canadian workers (1.3 million people) were dissatisfied with their jobs.** According to data from the Canadian Community Health Survey of 2002, nearly 9% of workers were either "not too satisfied" or "not at all satisfied" with their jobs. Despite some variation among professions, men (8.4%) and women (8.8%) were almost equally likely to be dissatisfied with their jobs. Relatively high proportions of men and women who worked in sales or service (11%), or processing, manufacturing or utilities (17%) were unhappy with their job. By contrast, fewer workers expressed job dissatisfaction in professional (5%) and management (6%) positions. Not surprisingly, income also plays a role in job fulfilment, with 12% of those earning an annual personal income of less than \$20,000 reporting discontent with their jobs versus only 5% of those earning \$60,000 or more.

Provincially, BC survey participants reported the highest incidence of job dissatisfaction among the provinces (10%), above the provincial average (9%). Residents of both Newfoundland & Labrador and PEI seemed to be happiest with their jobs, as only 5% of surveyed workers reported job dissatisfaction in 2002.

Data Source: SC Catalogue 82-003-XIE, Health Reports vol.17, no.4

The Nation

- **Canadians invested \$12.3 billion in foreign securities increased in August, the second highest level on record.** August purchases pushed total investments over the first eight months of 2006 up to \$58.8 billion, close to the record annual purchase of \$63.9 billion in 2000. Canadian acquisitions were split almost equally between purchases of foreign stocks (\$5.1 billion) and bonds (\$4.9 billion). Canadian investors also acquired \$2.1 billion in money market paper. At the same time, foreign investors purchased \$335 million in Canadian securities, down from \$3.1 billion in July.

Data Source: Statistics Canada

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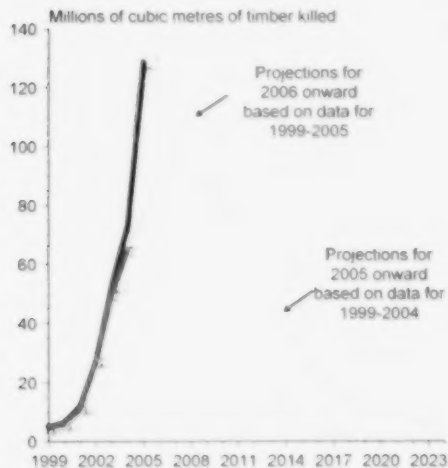
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Mountain Pine Beetle–Mania

The mountain pine beetle (MPB) epidemic currently affecting British Columbia forests has been described as a natural disaster in slow motion, but based on the destruction that the tiny insect has wrought on BC's pine forests in just a few years, perhaps that characterization is not entirely accurate. Ministry of Forests and Range (mofr) projections of the annual destruction of lodgepole pine based on aerial overviews have changed radically in just one year as the amount of beetle-killed timber has multiplied far faster than expected. The estimated volume of timber affected in 2005 was approximately 66% higher than what had been projected based on data from 1999 to 2004. mofr has compressed the forecast to reflect this experience and now projects an accelerated kill in the next few years, falling off more sharply as the volume of remaining healthy timber diminishes.

The destruction of BC's lodgepole pine forests is proceeding at a far faster rate than projected even one year ago



Source: Ministry of Forests and Range

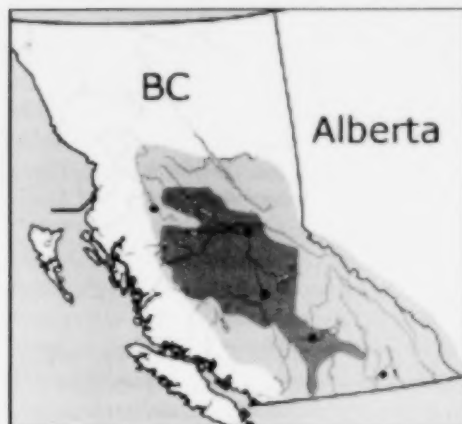
The current outbreak in BC is the largest Canada has ever seen. The MPB is a species of beetle that is native to North America and there have been previous outbreaks both in this province and in other areas of the continent, but the conditions that currently exist in BC have been perfect for the beetle to not only survive, but thrive.

The MPB is a tiny beetle about the size of a grain of rice. The beetles propagate by laying eggs under the bark of lodgepole pine trees. They harm the tree by cutting off the tree's supply of water and nutrients. The beetles also produce a bluestain fungus that prevents the tree from repelling and killing the attacking beetles with pitch flow.

It takes about 700 beetles to kill a lodgepole pine. Normally, the MPB will attack only highly-stressed mature trees, but when conditions are right, they will spread to healthy trees as well. Unfortunately, such conditions currently exist in British Columbia: There are large stands of mature pine, there have been several consecutive years of warm winters, and dry conditions have put additional stress on the trees. As a result, the MPB population has spread quickly and the sheer number of beetles has resulted in healthy trees becoming susceptible to the blight. In order to stop the beetle epidemic a period of extremely cold weather in the range of -20°C in the fall or -40°C in the late winter is required. However, since the beetle population has become so large, it may be necessary to have this kind of extreme weather occur in consecutive years. The range of the current epidemic makes it unlikely that this kind of cold snap could occur across the entire affected area, which does not bode well for BC's pine forests.

It is projected that, by 2013, 80% of the merchantable pine in BC's interior could be killed, with over half of that amount destroyed by mid-2007. The current MPB epidemic has already killed over 400 million cubic metres of merchantable timber in the province.¹

The mountain pine beetle epidemic has already spread throughout much of BC's pine forests



Map source: Canadian Forest Service, based on aerial overview surveys conducted in the late summer and early fall of 2004. Darkest area is where major outbreak has occurred; lighter shaded area is where beetles have started to penetrate.

Recently, researchers at the University of Northern BC have discovered that the MPB is capable of flying up to heights of 800 metres above the ground and can travel vast distances by riding air currents. This suggests that the beetle could potentially jump the Rockies and move into Alberta. If the MPB overcomes that barrier, it could threaten pine forests across the country.

The MPB infestation has several negative impacts including increased forest-fire risk; potential harm to wildlife; decline in aesthetic values, which could impact tourism and property values; and the obvious economic impact on forest sector companies and their employees. Accord-

ing to the BC Mountain Pine Beetle Action Plan, several communities in the province stand to lose 25% or more of their present income level due to the effects of the MPB on nearby forests.

The following table shows the top five areas in the province in terms of the percent of the timber harvest land base that is comprised of pine and gives the percentage of those that worked in those regions in 2000 that were employed in forest sector jobs.

| Timber Supply Area | % Pine Volume | % Working in Forest Industry, 2000 |
|--------------------|---------------|------------------------------------|
| Vanderhoof | 73 | 27 |
| Quesnel | 67 | 26 |
| Williams Lake | 54 | 22 |
| Morice and Lakes | 53 | 34 |
| 100 Mile House | 52 | 17 |

Sources: MOFR, Statistics Canada (2001 Census)

It is not difficult to see that areas in which a quarter of employment is forest-based and where pine makes up over half the merchantable timber are facing significant employment impacts as a result of the MPB infestation.

One of the problems for forest companies is that the fungus that the beetles introduce to the pine trees discolours the wood, which devalues it. However, if the trees are harvested within two to three years of when they are attacked, the wood retains most of its value for sawlogs. As a consequence of this, the harvesting of these trees has been accelerated to maximize their economic value. Over the short term, this increased harvest should bring some economic benefits to the affected areas as more employees will be needed to perform the work; however, once the epidemic has run its course and most of the pine is either harvested or dead and unusable, there could be a significant employment gap that could have devastating consequences for several forest-dependent communities in the interior of the province.

¹ Source: British Columbia's Mountain Pine Beetle Action Plan: 2006-2011, pg. 3.

There are critics of the policy of increasing the timber harvest, including environmental groups who suggest there are other methods that could be employed to control the outbreak and cattle ranchers who complain that the left-overs from logging have affected access to grazing land. According to the British Columbia Mountain Pine Beetle Action Plan, the MPB epidemic is killing timber faster than it can be harvested. The plan recognizes that there are other stakeholders to consider, stating, "Although it is important to recover the economic value and generate jobs by harvesting the dead timber and reforesting the sites, it is also important to recognize that impacted forests provide wildlife habitat, wilderness, and other ecological benefits that must be maintained."²

The plan calls for reforesting affected areas, but considering that it will take decades before the reforested areas will reach maturity, this still leaves a significant portion of the region's population facing unemployment. In order to mitigate the job displacement caused by the epidemic, the development of other economic activities in affected areas, such as tourism, mining and agriculture, will be encouraged. With proper planning it may be possible to limit the socio-economic impact of this natural disaster, but this will likely mean that the economic structure of BC's interior will undergo significant change over the next couple of decades.

² Ibid, pg. 11.



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BC at a glance . . .

| POPULATION (thousands) | | % change on |
|---|--------------|--------------|
| | Jul 1/06 | one year ago |
| BC | 4,310.5 | 1.2 |
| Canada | 32,623.5 | 1.0 |
| GDP and INCOME | | % change on |
| | 2005 | one year ago |
| <i>(BC - at market prices)</i> | | |
| Gross Domestic Product (GDP) (\$ millions) | 168,011 | 6.8 |
| GDP (\$ 1997 millions) | 144,028 | 3.5 |
| GDP (\$ 1997 per Capita) | 33,853 | 2.2 |
| Personal Disposable Income (\$ 1997 per Capita) | 20,693 | 2.5 |
| TRADE (\$ millions, seasonally adjusted) | | % change on |
| | | prev. month |
| Manufacturing Shipments - Aug | 3,567 | 4.8 |
| Merchandise Exports - Aug | 2,697 | -1.9 |
| Retail Sales - Jul | 4,476 | 1.2 |
| CONSUMER PRICE INDEX | | % change on |
| | one year ago | 12-month avg |
| <i>(all items - Sep 2006)</i> | | |
| BC | 1.0 | 1.9 |
| Vancouver | 1.4 | 1.8 |
| Victoria | 0.7 | 1.9 |
| Canada | 0.7 | 2.2 |
| LABOUR FORCE (thousands) | | % change on |
| | Sep '06 | prev. month |
| <i>(seasonally adjusted)</i> | | |
| Labour Force - BC | 2,312 | 0.3 |
| Employed - BC | 2,201 | 0.3 |
| Unemployed - BC | 111 | 0.3 |
| | | Aug '06 |
| Unemployment Rate - BC (percent) | 4.8 | 4.8 |
| Unemployment Rate - Canada (percent) | 6.4 | 6.5 |
| INTEREST RATES (percent) | | |
| | Oct 18/06 | Oct 19/05 |
| Prime Business Rate | 6.00 | 4.75 |
| Conventional Mortgages - 1 year | 6.40 | 5.05 |
| - 5 year | 6.60 | 6.00 |
| US/CANADA EXCHANGE RATE | | |
| | Oct 18/06 | Oct 19/05 |
| <i>(avg. noon spot rate)</i> Cdn \$ | 1.1379 | 1.1777 |
| US \$ <i>(reciprocal of the closing rate)</i> | 0.8800 | 0.8514 |
| AVERAGE WEEKLY WAGE RATE | | % change on |
| | Sep '06 | one year ago |
| <i>(industrial aggregate - dollars)</i> | | |
| BC | 730.10 | 2.9 |
| Canada | 735.97 | 3.2 |

SOURCES:

Population, Gross Domestic Product, Trade
Prices, Labour Force, Wage Rate } Statistics
Interest Rates, Exchange Rates } Canada
For latest Weekly Financial Statistics see www.bankofcanada.ca

Tourism GDP correction

We have corrected Tourism GDP posted to our site on September 5, 2006.

www.bcstats.gov.bc.ca/data/bus_stat/bcea/satacct.asp

Small Business Quarterly (FREE)

This longstanding periodical is now available for free on our site. Check out the latest issue (including data tables) and browse previous articles (previous articles have always been free for all our subscription periodicals).

www.bcstats.gov.bc.ca/pubs/pr_sbq.asp

A Guide to the BC Economy and Labour Market

The third edition of the *Guide* is now available. The *Guide* is a useful resource which provides an overview of the provincial economy and the characteristics of its workforce. Written by Lillian Hallin of BC Stats, it focuses on provincial industries with an emphasis on their human resource side. Economic terms are explained and examples provided, so that a background in economics is not needed to understand the material. The *Guide* also provides an historical perspective on how the provincial economy has developed, as well as what it may look like in the future.

www.bcstats.gov.bc.ca/pubs/econ_gui.asp

Released this week by BC STATS

- Consumer Price Index, September 2006

Next week

- Business Indicators, October 2006
- Current Statistics, October 2006



